

Message Text

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TRSE-00 OMB-01 EB-07 SIL-01 LAB-04 IO-13 /091 W

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FM AMEMBASSY LISBON

TO SECSTATE WASHDC 8002

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY MADRID

AMEMBASSY MOSCOW

AMCONSUL OPORTO

AMEMBASSY PARIS

AMCONSUL PONTA DELGADA

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C O N F I D E N T I A L SECTION 1 OF 2 LISBON 5081

EO 11652: GDS

TAGS: PINT, PO

SUBJ: THE SOARES CABINET: A FURTHER ASSESSMENT

REF: (A) LISBON 5019 (DTG 261608Z JULY 76), (B) LISBON 4995
(DTG 231826Z JUL 76), (C) LISBON 4729

SUMMARY: PRIME MINISTER SOARES MADE CLEAR IN HIS INSTALLATION ADDRESS THAT ECONOMIC RECOVERY MUST BE HIS GOVERNMENT'S TOP PRIORITY. LABOR DISCIPLINE AND IMPROVED PRODUCTIVITY WILL BE KEYS. AUTHORITY MUST BE REASSERTED. BUT TO DO THE JOB, SOARES WILL HAVE TO END THE AD HOC APPROACH OF THE PAST GOVERNMENT AND IMPLEMENT AN INTEGRATED ECONOMIC DEVELOPMENT PROGRAM. THE CABINET WHICH SOARES HAS ASSEMBLED BENEFITS FROM RELATIVE HOMOGENEITY AND FAIRLY STRONG LINKS TO THE MILITARY; IT HAS THE POTENTIAL FOR REASONABLE COMMUNICATION WITH THE
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OTHER DEMOCRATIC PARTIES. BUT THE CABINET REMAINS A

QUESTION MARK ON THE ECONOMIC SIDE. THE SOARES ECONOMIC TEAM IS NOT NOTABLE FOR ITS OVERALL EXPERIENCE OR TECHNICAL COMPETENCE. THE NEW ADMINISTRATION WILL HAVE TO PROVE THAT IT APPRECIATES THE NATION'S ECONOMIC PROBLEMS AND THAT IT CAN ENFORCE NECESSARY REMEDIAL MEASURES -- EVEN WHEN THESE MEASURES HAVE A SHORT-TERM POLITICAL COST. END SUMMARY.

1. TOP BILLING TO ECONOMY: IN HIS INSTALLATION ADDRESS JULY 23, PRIME MINISTER SOARES MADE CLEAR THAT RESTORATION OF PORTUGAL'S ECONOMY MUST BE HIS GOVERNMENT'S FIRST PRIORITY. HE APPROPRIATELY LAID SPECIAL STRESS ON LABOR LEGISLATION AND ATTITUDES. ALTHOUGH CONCEDING THAT THE GOVERNMENT SHOULD PROTECT WORKER GAINS AND INTRODUCE ADDITIONAL SOCIAL IMPROVEMENTS, SOARES EMPHASIZED THE NECESSITY OF ADJUSTING SEVERAL EXISTING LAWS. HE HIGHLIGHTED AS EXAMPLES:

-- THE NEED TO REDUCE EXAGGERATED EMPLOYMENT GUARANTEES WHICH, CONTRARY TO THEIR STATED OBJECTIVE, DAMAGE WORKER INTERESTS;

-- THE IMPORTANCE OF CLARIFYING "JUST CAUSE" AS GROUNDS FOR WORKER DISMISSALS;

-- THE CONTINUING USEFULNESS OF TEMPORARY HIRING POSSIBILITIES, PARTICULARLY IN THE CONSTRUCTION INDUSTRY;

-- IN A SIMILAR VEIN, SOARES NOTED THAT THE GOVERNMENT MUST QUICKLY RESOLVE THE PENDING QUESTION SURROUNDING THE DEFINITION OF "WORKER CONTROL" (REF 4729).

2. RATIONALIZING PUBLIC AND PRIVATE SECTOR: THE PRIME MINISTER UNDERLINED THE IMPORTANCE OF REORGANIZING THE PUBLIC SECTOR. IT MUST, HE SAID, BECOME EFFICIENT AND FINANCIALLY SOLVENT; THE BANKING SYSTEM CANNOT CONTINUE FINANCING TECHNICALLY BANKRUPT FIRMS. THIS REORGANIZATION MUST BE ACCOMPANIED BY SIMILAR EFFORTS TO REJUVENATE THE PRIVATE SECTOR. SOARES PROMISED TO DEFINE CLEAR "RULES OF THE GAME" AND TO REFRAIN FROM PROPOSING ADDITIONAL NATIONALI-
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ZATIONS. THE BANKING SYSTEM WOULD NO LONGER GRANT CREDITS ON IDEOLOGICAL CRITERIA.

3. MORE LABOR DISCIPLINE: SOARES WAS PARTICULARLY FORCEFUL IN UNDERSCORING THE NEED FOR GREATER WORKER DISCIPLINE AND PRODUCTION. THE EMBASSY NOTES THAT APPARENT CHANGES IN WORKER SENTIMENTS SHOULD HELP HIS EFFORTS TO INCREASE PRODUCTIVITY. WORKERS ARE BECOMING MORE CONCERNED ABOUT JOB

SECURITY AND, THEREFORE, MORE DISPOSED TOWARD LOWERING THEIR ASPIRATIONS. THIS ATTITUDINAL CHANGE UNDOUBTEDLY CONTRIBUTED TOWARD THE RECENT AGREEMENTS TO REDUCE WORKING DAYS AT GRUNDIG AND GENERAL INSTRUMENT. EVEN WITH THIS GRADUAL SHIFT IN OUTLOOK, HOWEVER, THE NEW GOVERNMENT WILL HAVE DIFFICULTY REESTABLISHING LABOR DISCIPLINE WITHOUT SPARKING SOME FORCEFUL LABOR REACTION. THE COMMUNISTS STILL HAVE THE CAPACITY TO HAMSTRING RECOVERY EFFORTS THROUGH THEIR CONTROL OF INTERSINDICAL AND MAJOR LABOR UNIONS.

4. MORE AUTHORITY: SOARES STRESSED THE IMPORTANCE OF REASSERTING RESPECT FOR AUTHORITY. THE GOVERNMENT, HE AFFIRMED, MUST GOVERN. THE ANARCHY OF THE PAST TWO YEARS MUST CEASE. INDEED, THE INTRODUCTORY PORTION OF HIS SPEECH WAS NOTABLE FOR ITS EMPHASIS ON THE LEGITIMACY OF THE PRESIDENCY, THE PRESIDENT'S ROLE AS GUARANTOR OF STABILITY, AND THE INTERDEPENDENCE OF THE CABINET AND THE CHIEF OF STATE.

5. THE NEED FOR A PROGRAM: TO ACCOMPLISH THESE TASKS AND TO PUT THE COUNTRY ON THE ROAD TO RECOVERY, SOARES WILL HAVE TO TERMINATE THE AD HOC APPROACH OF PAST GOVERNMENTS AND IMPLEMENT

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AN INTEGRATED ECONOMIC DEVELOPMENT PROGRAM. THE SOCIALIST PARTY HAS PREPARED A GLOBAL POLICY STATEMENT, BUT WE HAVE INDICATIONS THAT IT MAY NOT BE SUFFICIENTLY DETAILED TO CONSTITUTE AN ACTION PROGRAM. IN ADDITION, MAJOR CONTRIBUTORS TO THAT DRAFT ARE NOT IN THE NEW CABINET. THE PROGRAM OF THE GOVERNMENT PRESENTED TO THE ASSEMBLY IN THE NEXT FEW DAYS WILL OUTLINE POLICY INTENTIONS AND ESTABLISH PRIORITIES, BUT IT ALSO WILL PROBABLY BE FAIRLY GENERAL. IN PART, AT LEAST, THIS PROCEDURE REFLECTS PS STRATEGY FOR OBTAINING APPROVAL. SPECIFICS TEND TO BE MORE CONTROVERSIAL THAN GENERAL PRINCIPLES.

6. AGREEMENT MORE DIFFICULT LATER: IF THE GOVERNMENT HAS NOT ALREADY PREPARED AND APPROVED ITS ACTION PROGRAM, IT WILL HAVE CONSIDERABLE DIFFICULTY DOING SO IN THE NEXT FEW WEEKS. THE COMPOSITION OF THE CABINET COMPLICATES THE TASK.
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HAVING ONCE DECIDED THAT HIS CABINET WOULD BE MADE UP PRIMARILY OF SOCIALISTS, SOARES FACED A DILEMA. HE HAD TO DIVIDE AVAILABLE TALENT BETWEEN THE GOVERNMENT AND THE PARTY. NEITHER COULD BE NEGLECTED. HE RECOGNIZED AT THE OUTSET THAT A SOCIALIST GOVERNMENT COULD NOT BE SUCCESSFUL WITHOUT THE SURE SUPPORT OF THE PARTY ORGANIZATION FROM TOP TO BOTTOM. WHAT HE SOUGHT WAS A BALANCE WHICH WOULD ENSURE THE STRENGTH OF BOTH GOVERNMENT AND PARTY.

7. CABINET RUNS THE SPECTRUM: THE RESULT IS A CABINET WHICH RUNS THE SPECTRUM WITHIN THE PARTY -- FROM MANUEL ALEGRE ON THE RIGHT TO ANTONIO LOPES CARDOSO ON THE LEFT. THE SAME BALANCE HAS BEEN MAINTAINED IN THE PARTY ORGANIZATION. SALGADO ZENHA, THE NEWLY-ELECTED PS PARLIAMENTARY FLOOR LEADER AND JAIME GAMA STAND JUXTAPOSED WITH CARLOS LAGE AND ANTONIO REIS. SOARES IS THE CEMENT WHICH HOLDS THE PARTY TOGETHER, BOTH IN AND OUT OF THE GOVERNMENT.

8. LINKS TO POLITICAL FORCES: IN ADDITION TO THE CABINET'S RELATIVE HOMOGENEITY, IT BOASTS FAIRLY STRONG LINKS TO THE MILITARY AND HAS THE POTENTIAL FOR EASONABLE COMMUNICATION WITH THE OTHER DEMOCRATIC PARTIES. THE THREE MILITARY MEMBERS IN THE CABINET -- FIRMINO MIGUEL, COSTA BRAS, AND ALMEIDA PIRES -- ARE HIGHLY RESPECTED WITHIN THE ARMED FORCES. FIRMINO MIGUEL AND COSTA BRAS HAVE CLOSE PERSONAL TIES WITH PRESIDENT

EANES. MIGUEL ALSO HAS EXCELLENT TIES WITH PPD LEADER SA CARNEIRO AND IS WELL REGARDED BY THE CDS. ALMEIDA PIRES, A RETIRED ENGINEERING OFFICER, IS A RESPECTED TECHNICIAN. THE INCLUSION OF HENRIQUE DE BARROS AS MINISTER WITHOUT PROTFOLIO GIVES SOARES A TROUBLE SHOOTER WHO ENJOYS THE CONFIDENCE OF ALL MAJOR POLITICAL PARTIES. HIS EXPERTISE IN THE AGRICULTURAL AREA CAN AND PROBABLY WILL BE USED AS AN OFFSET TO LEFT-LEANING LOPES CARDOSO. VICTOR CUNHA REGO ALSO PROVIDES A STRONG LINK TO MODERATE FORCES TO THE RIGHT OF THE PS. DURING HIS TENURE AS DIRECTOR OF "DIARIO DE NOTICIAS," CUNHA REGO REGULARLY MET OVER LUNCH WITH "EXPRESSO" DIRECTOR BALSEMAO, THUS ENSURING READY PS COMMUNICATION WITH AT LEAST ONE FACTION OF THE PPD. CUNHA REGO HAS EXCELLENT TIES WITH PRESIDENT EANES. DRUING THE PRESIDENTIAL CAMPAIGN, CUNHA REGO PREPED EANES FOR AN HOUR EACH DAY ON POLITICAL TOPICS. EDUCATION MINISTER SOTTOMAYOR CARDIA ALSO ENJOYS AN EXCELLENT CONFIDENTIAL

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REPUTATION AMONG PARTIES TO THE RIGHT OF THE PS.

9. ECONOMIC TEAM STILL A QUESTION MARK: ALTHOUGH THE SOARES CABINET GETS RELATIVELY HIGH MARKS POLITICALLY, IT REMAINS A QUESTION MARK ON THE CONOMIC SIDE. DIFFERING PERSONAL AND BUREAUCRATIC PERSEPECTIVES WILL INEVITABLY PRODUCE CONFLICTING POLICY RECOMMENDATIONS, PARTICULARLY SINCE NONE OF THE ECONOMIC MINISTERS HAS SUFFICIENT PRESTIGE TO IMPOSE HIS VIEWS ON GLOBAL POLICIES. EVEN MORE IMPORTANT, THE ECONOMIC TEAM IS NOT NOTED FOR ITS OVERALL EXPERIENCE AND TECHNICAL COMPETENCE. SOME OBSERVERS EVEN QUESTION WHETHER IT WILL HAVE THE CAPACITY TO FORMULATE AND ADMINISTER AN ADEQUATE PROGRAM. GIVEN THE LACK OF POLITICAL CLOUT OF INDIVIDUAL ECONOMIC MINISTERS, ADOPTION AND COORDINATION OF MAJOR ECONOMIC DECISIONS WILL LIKELY REST HEAVILY WITH A HIGHER AUTHORITY, PROBABLY THE COUNCIL OF MINISTERS AND SOARES HIMSELF. HIS WILLINGNESS TO MAKE AND STAND BEHIND POLITICALLY UNPOPULAR DECISIONS WILL BE THE CRITICAL FACTOR. ANOTHER CRITICAL FACTOR WILL BE THE ABILITY OF THE GOVERNMENT TO RETAIN THE INITIATIVE IN THE FACE OF A CONCERTED EFFORT BY THE PCP AND OTHERS ON THE LEFT TO DISRUPT THE RECOVERY EFFORT.

10. IN SUM, WE MUST WITHHOLD JUDGEMENT UNTIL THE GOVERNMENT HAS DEMONSTRATED ITS COHESIVENESS, CONCEPTUAL CAPACITY, TECHNICAL SKILLS AND ADMINISTRATIVE ABILITIES. A RECOGNITION OF THE ECONOMIC PROBLEMS, AS WELL AS A DESIRE TO RESOLVE THEM, UNDOUBTEDLY EXISTS AMONG SOCIALIST PARTY ECONOMISTS. EVEN THE PARTY'S POLITICAL LEADERSHIP PROFESSES TO APPRECIATE THE DEPTH OF THE ECONOMIC CRISIS. THE FINAL ACTIONS OF THE SIXTH PROVISIONAL GOVERNMENT AND THE STATEMENTS BY PRIME MINISTER SOARES, ARE DEFINITELY ENCOURAGING IN THIS

REGARD. THE NEW ADMINISTRATION WILL, HOWEVER, HAVE TO PROVE
BOTH THAT IT TRULY APPRECIATES THE NATION'S ECONOMIC PROBLEMS
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